

## Message Text

UNCLASSIFIED

PAGE 01 LONDON 08695 01 OF 03 271740Z

46

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 NEA-10 AID-20 CIAE-00

FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 L-03

H-03 PA-03 PRS-01 USIA-15 TAR-02 AGR-20 RSR-01 /203 W

----- 074293

R 271725Z JUL 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2945

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

TREASURY DEPT WASHDC

UNCLAS SECTION 01 OF 03 LONDON 08695

DEPARTMENT FOR FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING JULY 27

BEGIN SUMMARY: STERLING'S DOWNWARD SLIDE CONTINUED AND  
ACCELERATED ON THURSDAY SO THAT STERLING CLOSED AT  
\$2.4845, DOWN ALMOST TWO CENTS ON WEDNESDAY'S CLOSE.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 08695 01 OF 03 271740Z

HOWEVER, STERLING RALLIED ON FRIDAY AND WAS BEING

QUOTED AT \$2.5075 AT 1 P.M. STERLING'S DEVALUATION ON A TRADE-WEIGHTED AVERAGE AGAINST SMITHSONIAN RATES FELL TO AN ALL TIME LOW OF 19.33 PERCENT ON THURSDAY. GOLD'S HIGH FOR THE WEEK WAS \$119.75 ON TUESDAY, JULY 24. DOMESTIC INTEREST RATES ARE EXPECTED TO RISE FURTHER IN EFFORTS TO RESTORE CALM TO THE MONEY MARKET AND CLOSE THE GAP WITH EUROPEAN RATES. THE COST OF LIVING FOR JUNE SHOWED A RISE OF 9.3 PERCENT OVER A YEAR AGO. CONSUMER SPENDING FELL IN THE SECOND QUARTER. THE RATE OF GROWTH IN THE MONEY SUPPLY ACCELERATED AGAIN IN JUNE AFTER A MARKED SLOW DOWN IN APRIL AND MAY. A RECENT REPORT PUBLISHED BY THE COMMITTEE ON INVISIBLE TRADE SHOWS THAT WHILE THE U.S. AND THE U.K. CONTINUE TO PREDOMINATE AS INVISIBLE EXPORTERS, THEIR SHARE IN THE WORLD'S TOTAL TRADE HAS DECLINED. THE TRADES UNION CONGRESS IS EXPECTED TO ASK FOR ACTION ON PRICES, RENTS, TAXATION AND PENSION IN TODAY'S (JULY 27) MEETING WITH THE PRIME MINISTER. END SUMMARY

1. STERLING CONTINUED TO MOVE DOWNWARD AGAINST ALL MAJOR CURRENCIES AND HAS NOW BEEN EFFECTIVELY DEVALUED AS OF THURSDAY BY 19.33 PERCENT COMPARED TO 16.92 PERCENT A WEEK AGO. STERLING CLOSED AT \$2.4845 ON THURSDAY, DOWN 195 POINTS ON WEDNESDAY'S CLOSE AND 495 POINTS ON LAST THURSDAY'S (JULY 19) CLOSE. TRADING ON THURSDAY, JULY 26, WAS QUITE NERVOUS. DEALERS CITED THE INTEREST GAP BETWEEN THE U.K. AND THE CONTINENT, CONTINUING EASY MONEY CONDITIONS IN LONDON, AND FEARS ABOUT INFLATION AND TRADE AS CAUSES OF THE SLIDE. THE PRESS REPORTS THAT WHILE IT IS HOPED THAT FIRM OFFICIAL ACTION TO RAISE INTEREST RATES AND MOP UP SURPLUS LIQUIDITY IN THE U.K. WOULD HELP TO STABILIZE THE SITUATION, DEALERS SAID THAT THE MARKET WOULD REMAIN VERY UNEASY ABOUT STERLING "FOR A LONG TIME YET". FEARS OF LABOR PROBLEMS IN THE FALL, AND OF THE INFLATIONARY EFFECTS OF THE FALL IN THE VALUE OF THE POUND SO FAR, ALSO WORK AGAINST AN EARLY RESTORATION OF CONFIDENCE. MOVEMENTS IN THE PRICE OF GOLD HAVE NOT REFLECTED THE MOVEMENTS OF STERLING. GOLD ROSE FROM \$117.50 LAST FRIDAY (JULY 20) TO A HIGH FOR THE WEEK OF \$119.75 ON TUESDAY (JULY 24) AND MOVED UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 08695 01 OF 03 271740Z

DOWN TO CLOSE AT \$119.00 ON THURSDAY (JULY 26), A RISE OF \$4.00 OVER LAST THURSDAY'S CLOSE.

2. AS REPORTED LAST WEEK, THE BANK OF ENGLAND CALLED FOR SPECIAL DEPOSITS ON JULY 19 TO HELP STRENGTHEN THE STERLING EXCHANGE RATE BY TIGHTENING DOMESTIC INTEREST RATES. THIS MOVE HAD VERY LITTLE EFFECT AND NONE REPEAT NONE OF THE MAJOR CLEARING BANKS RAISED THEIR

BASE LENDING RATES IN RESPONSE. SHORT-TERM INTEREST RATES ABROAD STILL REMAIN MARKEDLY HIGHER THAN THOSE IN THE U.K. AND THUS IT IS EXPECTED THAT FURTHER PRESSURE TO RAISE RATES HERE WILL OCCUR. IN FACT, THE MINIMUM LENDING RATE WAS RAISED TO 11-1/2 PERCENT TODAY (JULY 27). THIS MEANS THAT THIS RATE HAS BEEN RAISED FOUR PERCENT IN TWO WEEKS, UNPRECEDENTED IN THE HISTORY OF THE MINIMUM LENDING RATE.

3. THE COST OF LIVING INDEX (RETAIL PRICE INDEX) ROSE BY 0.5 PERCENT IN JUNE TO 178.9 FROM 178.0 IN MAY

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 08695 02 OF 03 271740Z

46

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 CIAE-00 FRB-02

INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 CIEP-02 LAB-06

SIL-01 OMB-01 NEA-10 NSC-10 SS-15 STR-08 CEA-02 L-03

H-03 PRS-01 PA-03 USIA-15 AGR-20 TAR-02 RSR-01 /203 W

----- 074259

R 271725Z JUL 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2946

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

TREASURY DEPT WASHDC

UNCLAS SECTION 02 OF 03 LONDON 08695

(JANUARY 1962100). THIS IS AN INCREASE OF 6 PERCENT AT AN ANNUAL RATE AND INCREASE OF 9.3 PERCENT OVER JUNE 1972. THE JUNE INCREASE WAS THE SMALLEST MONTHLY INCREASE SINCE NOVEMBER 1972 AND REFLECTED A 2.2 PERCENT DROP IN PRICES OF SEASONAL FOODS. UNFORTUNATELY THE INDEX FOR JUNE DOES NOT YET FULLY REFLECT THE RECENT ACCELERATION IN WHOLESALE PRICES OR THE DOWNWARD FLOAT OF STERLING SINCE MID-JUNE.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 08695 02 OF 03 271740Z

4. IN 2ND QUARTER 1973 THE VOLUME OF CONSUMERS' EXPENDITURE (IN CONSTANT PRICES, S.A.) WAS ABOUT TWO PERCENT LOWER THAN IN THE FIRST QUARTER. THIS FALL REFLECTS THE LOWER LEVEL OF RETAIL SALES FOLLOWING THE PRE-VAT SPENDING IN THE FIRST QUARTER. THE UNDERLYING TREND DURING THE FIRST QUARTER OF THE YEAR IS STILL UNCLEAR, BUT THE VOLUME OF CONSUMER SPENDING IN THE TWO QUARTERS TAKEN TOGETHER WAS 2-1/2 PERCENT MORE THAN IN THE SECOND HALF OF 1972, AND 6-1/2 PERCENT MORE THAN 1ST HALF OF 1972.

5. THE MONEY SUPPLY (M3) EXPANDED BY NEARLY 2.5 PERCENT (S.A.) IN THE FIVE WEEK PERIOD TO MID-JUNE. THIS IS THE SHARPEST INCREASE SINCE FEBRUARY AND LIFTS THE ANNUAL RATE OF GROWTH OVER THE PAST THREE MONTHS FROM 12.3 PERCENT TO MID-MAY, TO 14.7 PERCENT TO MID-JUNE. M1 ONLY ROSE BY 1 PERCENT IN THE PERIOD TO MID-JUNE. THE STATISTICS SUGGEST THAT STERLING LENDING TO THE U.K. PRIVATE SECTOR WAS A MAJOR CAUSE OF THE MONETARY GROWTH IN JUNE. FOR THE FIRST SIX MONTHS OF 1973, M3 HAS RISEN AT AN ANNUAL RATE OF ABOUT 23 PERCENT.

6. A RECENT REPORT BY THE COMMITTEE ON INVISIBLE EXPORTS SHOWS THAT THE SHARE OF INVISIBLES IN TOTAL WORLD TRADE ROSE SLIGHTLY BY 0.2 PERCENT TO 24.9 PERCENT IN 1970. BRITAIN'S SHARE FELL BACK IN 1970, BUT HER GROSS INVISIBLE EARNINGS ROSE SHARPLY, ALTHOUGH SLIGHTLY LESS THAN IN 1969. THE U.K. ACCOUNTED FOR 11.5 PERCENT OF TOTAL INVISIBLE RECEIPTS IN 1970 COMPARED TO 23 PERCENT FOR THE U.S. THIRD IN THE WORLD LEAGUE WAS FRANCE WITH 6.5 PERCENT, FOLLOWED BY WEST GERMANY (6.4 PERCENT), AND ITALY (6.0 PERCENT).

7. THE TUC IS EXPECTED TO CONCENTRATE ON THREE MAJOR ISSUES IN ITS DISCUSSIONS WITH THE GOVERNMENT ON JULY 27. THESE ARE: (1) RESTORATION OF VOLUNTARY COLLECTIVE

BARGAINING, INCLUDING NON-OPERATION OF THE INDUSTRIAL  
RELATIONS ACT; (2) PRICES AND RENTS; AND (3) TAXATION  
AND SOCIAL POLICIES, INCLUDING PENSIONS. ON THE OTHER  
HAND, THE PRIME MINISTER ANNOUNCED LAST WEEK THAT  
THRESHOLD AGREEMENTS WOULD BE A MAJOR PLANK IN PHASE  
III. THESE TYPES OF AGREEMENTS MEAN THAT PAY INCREASES  
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 08695 02 OF 03 271740Z

ARE TRIGGERED AUTOMATICALLY BY INCREASES IN THE COST OF  
LIVING.

8. ONE MONTH FORWARD STERLING WAS AT A SMALL PREMIUM  
ON TUESDAY, JULY 19 (0.03-1/2 CENTS) DUE TO THE  
RELATIVE WEAKNESS OF EURO-STERLING. HOWEVER, IT WAS  
THEN SOLD AT A DISCOUNT WHICH WIDENED DURING THE WEEK.  
THE DISCOUNT ON THREE-MONTH AND SIX-MONTH STERLING  
NARROWED ON TUESDAY BUT WIDENED MARKEDLY LATER IN THE  
WEEK.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 08695 03 OF 03 271740Z

46

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 CIAE-00 FRB-02

INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 CIEP-02 LAB-06

SIL-01 OMB-01 NEA-10 NSC-10 SS-15 STR-08 CEA-02 L-03

H-03 PRS-01 PA-03 USIA-15 AGR-20 TAR-02 RSR-01 /203 W

----- 074278

R 271725Z JUL 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2947

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN  
 AMEMBASSY DUBLIN  
 AMEMBASSY LUXEMBOURG  
 AMEMBASSY PARIS  
 AMEMBASSY ROME  
 AMEMBASSY STOCKHOLM  
 AMEMBASSY THE HAGUE  
 AMEMBASSY TOKYO  
 USMISSION EC BRUSSELS  
 USMISSION OECD PARIS  
 USDOC WASHDC  
 TREASURY DEPT WASHDC

UNCLAS SECTION 03 OF 03 LONDON 08695

	7/19	7/26	CHANGE
1 MONTH	0.22	0.50	UP 0.28
3 MONTHS	0.95	1.75	UP 0.80
6 MONTHS	2.37	3.50	UP 1.13

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES ROSE STEADILY ALL WEEK.

	7/19	7/26	CHANGE
UNCLASSIFIED			

UNCLASSIFIED

PAGE 02 LONDON 08695 03 OF 03 271740Z

1 MONTH	8-3/8	9	UP 5/8
3 MONTHS	9-1/16	10	UP 15/16
6 MONTHS	9-9/16	10-13/16	UP 1-1/4

10. EURODOLLAR RATES ROSE UNTIL TUESDAY, FELL BACK ON WEDNESDAY AND ROSE AGAIN ON THURSDAY.

	7/19	7/26	CHANGE
1 MONTH	10-1/2	11-3/16	UP 11/16
3 MONTHS	10-3/4	11-5/16	UP 9/16
6 MONTHS	10-7/8	11-5/16	UP 7/16

11. THE MINIMUM LENDING RATE WAS INCREASED SHARPLY TO 11-1/2 PERCENT, UP FROM 9 PERCENT LAST WEEK.

ANNENBERG

UNCLASSIFIED

NNN



## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 27 JUL 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973LONDON08695  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1973/newtext/t1973078/aaaaafju.tel  
**Line Count:** 322  
**Locator:** TEXT ON-LINE  
**Office:** ACTION EB  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:**  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** willialc  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 08 AUG 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <08-Aug-2001 by reddocgw>; APPROVED <15-Aug-2001 by willialc>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC DEVELOPMENTS: WEEK ENDING JULY 27 BEGIN SUMMARY: STERLING'S DOWNWARD SLIDE CONTINUED AND  
**TAGS:** ECON, UK  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005